The Federal Report

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

The Month in Washington: February 2006

The Bush administration's approval of warrantless wiretapping, Vice President Cheney's accidental shooting of a hunting companion, and a new dispute over the prospect of a Middle Eastern company controlling six U.S. ports dominated Washington news in February. Amid the turmoil, the nation's business went on, with lawmakers from both parties indicating that they want to examine the port transfer proposal , and Democrats taking aim at the priorities the president outlined in his January 31st State of the Union address. The President's plan to eliminate scores of domestic programs stirred particular ire among members of the opposition party, but the administration says the cuts are necessary in order to return the nation to some semblance of fiscal discipline. If the recent past is any guide, the budget battle will last until well past the October 1st start of the next fiscal year, with both sides trying to use points of dispute to their advantage during the fall campaigns.

Issues and Events

New Majority Leader Could Raise Profile of Pension Issues

One of Congress' leading voices on pension issues, Rep. John Boehner, R-Ohio, has been elected House majority leader.

Boehner, the chairman of the Education and the Workforce Committee, was voted into the No. 2 leadership post in the chamber on Feb. 2, replacing Texas' Tom Delay, who resigned the position in 2005 after being indicted on money laundering charges.

Boehner is the sponsor of the Pension Protection Act of 2005 (H.R. 2830), a pension reform bill that would revise funding rules for private sector pensions and increase premiums paid to the Pension Benefit Guaranty Corporation. The bill passed the House in December and awaits action by the Senate.

In his new position, Boehner will have more power over the direction of legislation, which is likely to bode well for pension reform proposals, both his own and a similar measure that originated in the Senate, the Pension Security and Transparency Act of 2005 (S. 1783).

Social Security Reform Included in President's Budget

President Bush revived his Social Security personal accounts proposal in his fiscal year 2007 budget proposal, but it is not expected to be any more successful this year than it was in 2005.

Efforts to make personal accounts a part of Social Security went nowhere in 2005, as Democrats united against it and many Republicans expressed wariness about moving the program away from its traditional guaranteed benefits.

Although the measure has resurfaced in the president's spending plan for the fiscal year that begins October 1st, the White House, unlike in 2005, has made no public mention of it and is not expected to push for Congress to act on it. President Bush also did not discuss it in his January 31st State of the Union address. Whereas Social Security reform was a centerpiece of last year's speech, Bush's only reference to the program this year was in calling for a commission to "examine the full impact of baby boom retirements on Social Security, Medicare, and Medicaid. ... We need to put aside partisan politics and work together and get this problem solved."

HSAs Not the Solution, NCHC Told

President Bush's focus on health savings accounts (HSAs) as a solution to the United States' health care problems is misplaced according to speakers at the February 9th meeting of the National Coalition on Health Care (NCHC).

Bush advocated the expansion of HSAs – savings accounts with tax advantages that are used in conjunction with high-deductible health plans (HDHPs) – in his January 31stState of the Union address, one of the few health care topics he mentioned during the speech. NCHC Senior Vice President Mark Goldberg said that HSAs would do little to satisfy NCHC's five "Specifications for Reform" (universal coverage, cost management, improvements in quality and safety, equitable financing and simplified administration), going into detail to explain why they are unlikely to lower costs. The rationale behind HDHPs and HSAs is that individual's having to pay medical costs out of pocket – as they do with the first $1,500 or $2,000 or so each year when using HDHPs – will be more cost-conscious consumers. The problem, Goldberg said, is that about four-fifths of medical expenses come after the deductible is paid, at which point market pressures for consumers disappear, making HDHP's impact on costs "very modest."

Two guest speakers said at the meeting that HDHPs and HSAs could be useful to many people, but they will never have system-wide effects. Ken Thorpe of Emory University noted that about 80 percent of all medical costs are generated by patients with chronic illnesses and that more than one-fourth of the growth in health care spending over the past two decades can be traced to increases in obesity, problems that require different approaches than expanding insurance options. Robert Laszewski of Health Policy and Strategy Associates echoed some of Thorpe's points, suggesting that, while HDHPs and HSAs "have some positives," massive government funding – a proposed $156 billion – to promote a product that, by 2010, will only be used by about 10 percent of consumers, according to White House projections, amounts to "expensive incrementalism."

NCHC promotes health care reform and includes public pension, civic, religious, business and labor groups as members.

Federal Entitlement Spending Trimmed

President Bush on February 8th signed into law a measure that, for the first time since 1997, limits the automatic growth of the Medicare and Medicaid entitlement programs.

The bill will slice $39 billion from planned spending over the next five years, less than 0.5 percent of the $14.3 trillion in projected federal spending during that time.

The legislation will slow the growth in Medicare spending by $6.4 billion and the growth in Medicaid spending by $4.8 billion over five years. It also will reduce spending on student loans by $12.7 billion and trims funding for certain other programs.

The President's signature came just six days after the House approved the measure by a 216-214 vote. The Senate had passed it 51-50 in December, with Vice President Cheney casting the tie-breaking vote.

Strategic Recommendations

LGV&A is not offering any new strategic recommendations to the Board this month.

California Congressional Delegation

California Lawmaker Chosen for Leadership Post

On February 15th, Rep. Howard P. "Buck" McKeon (R-CA-25th) was named to serve as Chairman of the House Committee on Education and the Workforce. The appointment was made after a vote by all of the Republican Members of the House pursuant to a recommendation of the House Republican Steering Committee.

Mr. McKeon, who has served on the House Education and the Workforce Committee since 1993, and has been Chairman of the Subcommittee on 21st Century Competitiveness since 1995, based his campaign for the chairmanship on a pledge to address the "New Realities" of the global economy.

The House Committee on Education and the Workforce and its five subcommittees oversee education and workforce programs that affect and support programs ranging from school teachers and small business operators to students and retirees. It had previously been chaired by Rep. John Boehner (R-OH), but under the rules of the House, Boehner was obligated to relinquish the post when he was elected House Majority Leader.

California Lawmaker Takes Aim at Drug Makers' Gifts to Doctors

Drug manufacturers would no longer be able to deduct from their taxes the value of gifts they give to physicians if legislation introduced by Rep. Pete Stark, D-Calif., becomes law.

The Prescription Drug Safety and Affordability Act of 2006 (H.R. 4706) seeks to discourage manufacturers from influencing the prescribing decisions made by doctors by giving them dinners, trips and other gifts.

"Instead of wining and dining doctors, this legislation would encourage drug companies to lower drug prices and conduct additional research," Stark said.

The bill is in the House Ways and Means Committee.

Related National and Industry News

Retirement Plan Participation Slipping

Participation in tax-advantaged retirement plans dipped slightly between 1997 and 2000, with a larger decline occurring in the rate of participation in non-contributory plans, according to a new Congressional Budget Office study.

Fifty percent of workers participated in retirement plans in 2000, 1 percentage point lower than in 1997, the study found. Participation in employment-based plans dropped 2 points to 45 percent, according to the study, with 401(k) plan participation increasing a percentage point to 28 percent, but participation in non-contributory plans dropping 3 points to 17 percent.

"Those differences largely reflect a continuation of the long-term trend of employers shifting from traditional pensions toward 401(k)-type plans," the study noted.